STATEMENT OF PRINCIPLES

OSLO ALBERTA OIL SANDS PROJECT

September 24, 1988

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Definitions

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I. PREAMBLE

Discussions between the Government of Canada and the Government of Alberta (the "Governments") and, Esso Resources Canada Limited, Canadian Occidental Petroleum Ltd., Gulf Canada Resources Limited, Alberta Oil Sands Equity ("AOSE"), Petro-Canada Inc., and PanCanadian Petroleum Limited (the "Project Owners") have resulted in the following Statement of Principles. In this Statement of Principles, Esso Resources Canada Limited is referred to as the "Project Operator".

The execution of this Statement of Principles by the signatories hereto is not intended to and does not create legally enforceable rights or obligations between the signatories hereto or between any of the signatories hereto and any third party. The signatories hereto will use all reasonable efforts to finalize definitive agreements (the "Binding Agreements") embodying this Statement of Principles as expeditiously as possible, but in any event by May 30, 1989; it being understood that although the Royalty Agreement will have been determined by that date and attached as a Schedule to certain of the other Binding Agreements it will not be executed prior to receipt of approval of the Project by the Energy Resources Conservation Board. The Binding Agreements will be binding on the signatories hereto and the successors and assigns of the Project Owners.

It is recognized that the Binding Agreements will contain many details with respect to the matters covered by this Statement of Principles that are not specifically set forth herein such as the detailed definitions of various concepts. The exact wording of any provision of this Statement of Principles is not intended to govern the exact wording of the equivalent provision of the Binding Agreements. The entering into of the Binding Agreements is subject to the satisfaction of all of the conditions outlined herein; the securing of the necessary legislative or other authority in order for the Government of Canada and the Government of Alberta to give effect to the

Binding Agreements; the confirmation by Revenue Canada and Alberta Treasury, based on an early application for rulings by the Project Owners, of the tax treatment of the items listed in Schedule "A" that have been assumed as the basis for this Statement of Principles; and the approval of the terms of the Binding Agreements by all of the signatories thereto.

Subject to the terms and conditions of this Statement of Principles, the signatories hereto will take all reasonable steps to proceed with the Project expeditiously and to avoid any unnecessary delays or cost increases in respect of the Project.

Unless otherwise indicated, all monetary references in this Statement of Principles are to nominal Canadian Dollars.

II. DESCRIPTION OF PROJECT

The project relates to the construction and operation of an integrated oil sands facility on the agreed portion of Alberta Oil Sands lease no. 7280100T31 ("Agreed Portion of Lease 31") in the Kearl Lake region near Fort McMurray, Alberta (which Agreed Portion of Lease 31, construction, operation, related assets and undertaking are called the "Project"). The Project is expected to produce 77,000 bbl/day of synthetic crude oil, at capacity, over at least a 35 year period, with the possibility of expansion in size. The Project is expected to commence production six years after Project Appropriation and to reach productive capacity within 3 years.

The Project Owners currently estimate the development cost of the Project, to Production Start-up, to be approximately $4.1 billion. Eligible Capital Costs incurred to conduct the engineering studies to bring the Project to Project Appropriation and to construct the Project will be financed by a combination of equity investment by the Project Owners, loans to the Project Owners (other than AOSE) guaranteed by the Governments and contributions by the Governments. The Project Owners estimate that after Production Start-up there will be additional development costs of approximately $2.7 billion. These additional costs will be the responsibility of the Project Owners.

III. JOINT UNDERTAKINGS BY GOVERNMENTS OF CANADA AND ALBERTA

1. CONTRIBUTIONS

(a) OSLO Development Incentive

The Governments will make a contribution - the OSLO Development Incentive - to the Project Owners of up to $850 million (for both Governments combined) shared in accordance with the Project Owners' interests in the Project. This contribution will be shared equally between the two Governments. As Eligible Capital Costs are incurred on the Project, funds from the Governments' contribution will be payable to the Project Operator, as agent for the Project Owners. Such payments, up to the limit of $850 million, will be in amounts equal to 25% (for both Governments combined) of the Eligible Capital Costs incurred. The method of payment of such contributions and of handling over-payments and under-payments will be specified in the Binding Agreements. Interest will be payable on early or late payments.

Expenditures on the Project will be subject to audit by representatives of the Governments and any contribution made for ineligible expenditures will be repaid with interest by the Project Owners, within a reasonable period of time following a formal request by the Governments for repayment.

(b) Indexed OSLO Development Incentive

The Governments will, under certain conditions, make a further contribution - the Indexed Development Incentive - to the Project Owners, of up to $160 million (for both Governments combined) shared in accordance with the Project Owners' interests in the Project. This additional contribution will be funded 30% by the Government of Canada and 70% by the Government of Alberta.

The Indexed Development Incentive will provide a contribution of up to 4 percent (for both Governments combined) of Eligible Capital Costs incurred in any calendar year. The applicable percentage will be defined by the relationship between the Actual Price in a year and specified prices according to the following scheme:

- If the Actual Price for the year is equal to or below US$19/bbl, the full 4% contribution is available.

- If the Actual Price for the year is between US$19/bbl and US$21/bbl, the contribution rate available, expressed as a percentage, is calculated as:

$$4 \times \frac{(\text{US\$21} - \text{Actual Price})}{\text{US\$2}}$$

- If the Actual Price for the year is equal to or above US$21/bbl, no Indexed Development Incentive is available.

The Indexed Development Incentive will be estimated and paid currently and adjusted on the basis of the Actual Price for each quarter. A final calculation of the Indexed Development Incentive for the year will be done on the basis of the Actual Price for the year and adjustments made within 6 months after the end of the year.

2. LOAN GUARANTEES

(a) Guaranteed Loans

(i) Eligibility

The Governments will guarantee loans to the Project Owners (other than AOSE), of up to a maximum of $1.2 billion (for both Governments combined) shared in accordance with those

Project Owners' interests in the Project. This amount excludes any interest capitalized under Section III 3(a). The Governments' obligations to the lenders under the guarantees will be shared equally and constitute unconditional, several, but not joint, obligations of Canada and Alberta. Such guarantees will be irrevocable within their terms. The terms and conditions applicable to the Guaranteed Loans may not be changed without the prior consent of the Governments. Except as provided in Section V 2(a) and (b) the Guarantee for each Project Owner will be secured solely by that Project Owner's interest in the Project and the Governments will have no recourse against other assets of the Project Owner.

As Eligible Capital Costs are incurred on the Project, funds may be drawn down under the loans, in amounts, up to the specified limit of $1.2 billion, equal to 37.5% (for both Governments combined) of the Eligible Capital Costs incurred.

(ii) Principal Repayment of Guaranteed Loans

Repayment of the principal of the Guaranteed Loans by a Project Owner will begin at the earlier of:

- 12 months following Nominal Payout; or

- 12 months following Full Production

Payments of principal and interest on Guaranteed Loans by a Project Owner will be paid on a current basis and will be the greater of:

- 16% of that Project Owner's share of Net Operating Revenues; or

- a fixed blended interest and principal repayment schedule amortized over a 240 month period, for that Project Owner referred to as the "Amortized Schedule".

The schedule of principal repayments for each Project Owner will be expressed on a cumulative basis to allow credit for advance repayments of principal resulting from payments of 16% of Net Operating Revenue. Any advance repayments will be credited against the principal portion of a payment that forms part of the Amortized Schedule in subsequent periods, starting in the immediately following repayment period. The payment of principal and interest in any period will always be the greater of 16% of Net Operating Revenues in that period or the payment required by the Amortized Schedule as adjusted by the credits for advance repayments of principal.

Any reference in this Statement of Principles to the "Original Repayment Schedule" of the Guaranteed Loans means repayment in accordance with the preceding portion of this Section III 2(a)(ii).

Any refinancing referred to in Sections III 2(c)(iv) and (vi)(a) will be applied to reduce the Original Repayment Schedule payments on a proportionate basis.

(iii) Security

The guarantee regarding each Project Owner will be secured by a first fixed and floating charge on its undivided interest in all Project assets including the Project Owner's undivided interest in the processes, operations, licences, approvals, authorities, contracts and contractors' completion and performance guarantees, undertakings, revenues and the Agreed Portion of Lease 31 containing 1.3 billion barrels of recoverable reserves. Except as provided under Section V 2(a) and (b) the Governments will have no recourse against any other assets of a Project Owner.

The taking of security by the Governments and the realization on such security by the Governments will not affect

in any manner whatsoever the interest of AOSE except to the extent that it affects any interest AOSE may acquire from another Project Owner.

The Binding Agreements will contain all of the usual provisions necessary to perfect the Governments' security. It is a condition of execution by the Governments of the Binding Agreements that the Governments will be satisfied that the Agreed Portion of Lease 31 and all other assets and rights except such as are immaterial will be sufficiently assignable for the purpose of perfecting and realizing upon their security, and that the Governments will provide satisfactory assurances to each other to give expeditiously any consents necessary for such purposes.

(iv) Guarantee Fee

Each Project Owner will pay to the Governments an annual guarantee fee of 1/2 of 1 percent (for both Governments combined in equal shares) of the average outstanding principal amount of its Guaranteed Loans over the previous 12 month period.

(v) Application of Guarantees

The guarantees will secure:

(a) principal amount of loans under the Guaranteed Loans, including capitalized interest referred to in Section III 3(a), to a maximum amount of $1.285 Billion; and

(b) interest under the Guaranteed Loans in an amount not exceeding interest for one normal interest period in effect under such loan at the time that a demand for payment is made in respect of a guarantee; and

(c) principal under the TFF loans to a maximum amount of $125 Million; and

(d) interest under the TFF loans in an amount not exceeding interest for one normal interest period in effect under such loan at the time that a demand for payment is made in respect of a guarantee.

(b) Temporary Financing Facility (the "TFF")

(i) Eligibility

The Governments will guarantee, severally but not jointly, loans to the Project Owners (other than AOSE) of up to a maximum of $125 million (for both Governments combined) shared in accordance with those Project Owners' interests in the Project. The Governments' obligations to the lenders under the guarantees will be shared equally. Loans under the TFF may only be used to the extent necessary to make scheduled payments of principal and interest on the Guaranteed Loans (after the application of Interest Assistance and accumulated credits for accelerated repayment) in accordance with the Original Repayment Schedule in months when the Project Owner's share of Project Cashflow is negative. The TFF loans may be drawn only after Production Start-up and may be drawn on a revolving basis until Nominal Payout. Project Cashflow is Net Operating Revenue plus Interest Assistance received less any repayment of Interest Assistance, debt service of the Guaranteed Loans (principal, interest and guarantee fees), royalties and Notional Project Income Tax.

(ii) Repayment of the TFF

A Project Owner will use 100% of its share of Project Cashflow to repay TFF loans, to be applied firstly as to interest and then as to principal.

Where the Project Owner's share of Project Cashflow is inadequate to pay interest on TFF loans, the interest on the TFF loans may be added to the capital of the loan to the extent of the deficiency and to the extent that the Project Owner has TFF eligibility available. The remainder of the interest on the TFF loans will be payable on a current basis.

(iii) Security

The security referred to in Section III 2(a)(iii) will secure the guarantees of both the Guaranteed Loans and the TFF loans. The events and remedies in Section III 2(c)(viii), (ix) and (x) also apply to the TFF.

(iv) Guarantee Fee

Each Project Owner will pay to the Governments an annual guarantee fee of 1/2 of 1 percent (for both Governments combined in equal shares) of the average outstanding balance of its TFF loans over the previous 12 month period.

(c) Other Terms and Conditions of the Loan Guarantees

(i) The Guaranteed Loans and TFF loans will be arranged individually by each Project Owner with lenders approved by the Governments. The Governments will not unreasonably withhold their approval of a lender and will make such decision within a reasonable time frame.

(ii) The timing, terms and conditions of the Guaranteed Loans must be consistent with the debt management policies and practices of the Governments and must be approved by the Minister of Finance and the Provincial Treasurer, which approval will not be unreasonably withheld and will be based upon the criteria set forth in Schedule B.

(iii) The Governments' guarantees will be expressed in Canadian dollars and any currency exposure will be covered by parties other than the Governments.

(iv) If a specified test is met subsequent to Production Start-up, a portion of the Guaranteed Loans will be subject to a mandatory conversion into non-guaranteed loans dependent only on the Project for servicing and the Governments' security would be reduced proportionately as set out in Section (vi). The test will be a formula based on current and projected cash flow coverage over a specified period. The test will provide for various thresholds at which increasing amounts of the Guaranteed Loans will be converted, up to a maximum of 25% of the loans. The signatories will discuss the possibility of providing tests for further conversions to non-guaranteed status over the 25% level, it being understood that any further conversions would be agreed to only if they could be achieved at no more than a marginal increase in cost to the Project Owners.

(v) The Governments will consider allowing a reasonable amount of Project security to be made available for additional, non-guaranteed Project debt, after Production Start-up, subject to conservative commercial lending tests designed to protect the Governments' security position.

(vi) After Full Production, the Governments will permit a proportional staged reduction of the Governments' security in the event of:

(a) a refinancing of the Guaranteed Loans through equity or non-guaranteed borrowing in amounts

of at least 20%, or integral multiples thereof, of a Project Owner's share of $1.285 billion; or

(b) repayment of each 20%, or integral multiples thereof, of Guaranteed Loans in accordance with the Original Repayment Schedule of a Project Owner's share of $1.285 billion,

provided that there is no loan outstanding under the TFF.

The percentage of the security released for each 20% repayment or refinancing of principal will be:

$$\frac{(20 \times \$1.285)}{(\$1.285 + \text{total TFF eligibility of } \$.125)}$$

(where $ refer to billions)

Any reduction under (vi)(b) will be subject to the following three tests:

1. Cash flow available for payments on the Guaranteed Loans in accordance with the Amortized Schedule in the preceding 12 months has been 2.5 times those payments;

2. Cash flow available for payments on the Guaranteed Loans in accordance with the Amortized Schedule over the five years following each date on which a 20% repayment has been achieved, calculated using a conservative projection of revenues and costs, is not less than 2.5 times the aggregate of the Amortized Schedule payments over that period, and in any year is not less than 1.25 times the Amortized Schedule payments in that year;

3. Cash flow available for total Project debt service, including subordinated debt, in any year over the remaining term of the Guaranteed Loans, is estimated to be not less than 1.1 times the total Project debt servicing requirements in that year.

(vii) No other debt secured by the Project (other than permitted encumbrances to be agreed upon in the Binding Agreements and normal operator's liens) will rank ahead of the security for the guarantees of the Guaranteed Loans or the TFF loans.

(viii) The maturity date of each Guaranteed Loan and TFF loan will include a date 30 days after written notice from the Governments to the lenders to the effect that the Project Owners have either:

(a) abandoned the Project, or

(b) failed to comply with the Completion Assurances referred to in Section V.2.

(ix) The lender under a Guaranteed Loan or TFF loan will be entitled to demand payment of all amounts then owing under that loan if, among other events appropriate to a non-recourse loan, that Project Owner has:

(a) failed to pay current interest when due, or

(b) failed to meet any debt payments, whether on Guaranteed Loans or TFF loans or any other debt secured by the Project,

after having been given a reasonable period to remedy such failure. During such period the

Project Owners and the Governments, without prejudice to their respective rights and remedies under the guarantees, will discuss in good faith whether to renegotiate the loan terms.

(x) For the purposes of Sections (viii) and (ix), the Governments' security will include satisfactory assignment provisions, rights and remedies which are normally associated with realization on the security, including the right to:

(A) appoint a receiver,

(B) exercise control over that interest in the Project, including involvement in decisions relating to abandonment, further investment and new Project participants,

(C) assume the Project Owner's interest in the Project, and

(D) sell or assign that interest

all subject to the provisions of the Ownership and Management Agreement.

(xi) The Project Owners will provide to the Governments status reports at reasonable intervals prior to Production Start-up and quarterly thereafter on all financial and technical issues that are relevant to the financial or operating status of the Project.

(xii) Should a Project Owner fail to meet its loan obligations:

(a) any one or all of the remaining Project Owners would have the right to take over such Project

Owner's interest in the Project by assuming such Project Owner's full rights and obligations relating to the Project including its share of capital and operating costs of the Project; and all of the security described in paragraph III 2(a)(iii) for all of the original Project Owners including that of the Project Owner which has failed to meet its loan obligations will continue as security for the Guaranteed Loan and TFF obligations of the remaining Project Owners according to their adjusted interests in the Project;

(b) should none of the Project Owners exercise the option in (a), the Governments will have the option to assume the interest in the Project of the Project Owner that has failed to meet its obligations; if the Governments exercise this option, the basic Net Profits Interest payable by the remaining Project Owners to each Government under section V 1 will increase from 8% to 9.25%;

(c) should the Governments not exercise the option in (b), the remaining Project Owners will have the option to assume the rights and prospective obligations of the Project Owner which has failed to meet its loan obligations in the Project; if this option is exercised,

- all of the security described in paragraph III 2(a)(iii) for all of the original Project Owners including that of the Project Owner which has failed to meet its loan obligations will continue as security for the Guaranteed Loan and TFF obligations of the remaining Project

Owners according to their adjusted interests in the Project; and

- after each remaining Project Owner has earned a nominal after-tax return of 10% on the incremental interest assumed by it, where this return is based on each Project Owner's forward net equity investment net of the incentives and loan guarantees provided hereunder by governments, it will provide each of the Governments an additional 5% Net Profits Interest on the share of Net Operating Revenues assumed by it until the Governments recover the amount of principal outstanding and interest accrued at the time of the failure to meet the loan obligations on the share of the Guaranteed Loans, TFF and the outstanding Interest Assistance of the Project Owner which has failed to meet its loan obligations; this additional Net Profits Interest will be calculated and payable in the same manner as set out in section V 1, except that there will be no reduction based on the Actual Price and the termination provisions do not apply; and

(d) should the remaining Project Owners not choose the option in (c), the Governments will have the option to assume the prospective rights and obligations of the Project Owner which has failed to meet its loan obligations in the Project, in which case the basic Net Profits Interest payable by the remaining Project Owners to each Government under section V 1 will increase from 8% to 10.5%.

If the Governments exercise their rights under paragraph (b) or (d) and the Project Operator is not intending to continue operating the Project, the Project Operator will at the option of the remaining Project Owners and the Governments continue to operate the Project for them on reasonable commercial terms until a replacement operator satisfactory to them can be found.

(xiii) The sole recourse of the lenders under the Guaranteed Loans shall be the guarantees.

3. Interest and Interest Assistance

(a) Interest Assistance Prior to Production Start-up

Prior to Production Start-up, the Governments will provide repayable contributions to the Project Owners (other than AOSE) to assist the Project Owners in meeting current and not overdue interest payments on the Guaranteed Loans. These contributions will be shared equally between the two Governments. These contributions will amount to 75% (for both Governments combined) of the interest on the Guaranteed Loans up to a maximum of $250 million (for both Governments combined) shared in accordance with those Project Owners' interests in the Project. The remaining 25% of the interest payable will be capitalized and added to the principal of the Guaranteed Loans to a maximum of $85 million for the Project shared among the Project Owners (other than AOSE) in accordance with their interests in the Project. Any interest payments in excess of $335 million will be paid on a current basis by the Project Owners.

(b) Interest Assistance Subsequent to Production Start-up

Commencing at Production Start-up, interest will be

fully paid by each of the Project Owners at all times on a current basis.

In any month subsequent to Production Start-up the Governments will provide repayable contributions - Indexed Interest Assistance - to the Project Owners (other than AOSE), of up to one-half (for both Governments combined) of the current not overdue interest payable in the month on the Guaranteed Loans up to a maximum of $250 million (for both Governments combined) shared in accordance with those Project Owners' interests in the Project. These contributions will be shared equally between the two Governments. This assistance will be available to a Project Owner only if its Guaranteed Loans are in good standing.

The proportion of interest covered by the repayable contribution for a month will be determined by the Actual Price for that month subject to an annual adjustment. Specifically the repayable contributions available for any month will be the amount of interest payable during that month multiplied by the lesser of:

- 0.5 x (US$25 - Actual Price) / US$10 or

- 0.5

For greater clarity it is understood that the Indexed Interest Assistance available for any month will not exceed 50 percent of current and not overdue interest payable during that month.

(c) Conditions of Interest Assistance

(i) In the event that a Project Owner refinances or repays the Guaranteed Loans sooner than scheduled under the Original Repayment Schedule, the Governments will continue to provide Interest Assistance as if the Guaranteed Loans had remained

fully in place in accordance with the Original Repayment Schedule.

(ii) In the event that any Project Owner, other than AOSE, decides to proceed without Guaranteed Loans, the Governments agree to provide Interest Assistance, on an equal sharing basis, to any such Project Owner as if the Guaranteed Loans were in place in accordance with the Original Repayment Schedule. In this event, a Project Owner's eligibility for Interest Assistance would be determined as if the Project Owner had borrowed at the weighted average interest cost of the Project Owners who are using the loan guarantees. If no Project Owners have used the loan guarantees the Binding Agreements will provide for a deemed rate of interest. Any such Project Owner would be exempt from the security and guarantee fee provisions of the loan guarantees under Section III 2(a)(iii) and III 2(a)(iv).

(iii) Interest on TFF loans will not be eligible for Interest Assistance.

(d) Repayment of Interest Assistance

Interest Assistance will be repayable to the Governments, without interest, beginning in the month immediately after the full repayment of the Guaranteed Loans (or, in the case of a Project Owner that proceeds without Guaranteed Loans, after deemed repayment as provided in Section III 3(c)(ii)) to the extent of 16% of a Project Owner's share of Net Operating Revenue from the Project.

4. TAX TREATMENT

The prevailing federal and Alberta tax systems

(corporate, sales, customs, etc.) as they exist from time to time, will apply with respect to the Project.

5. ACCESS TO MARKETS AND PRICES

It is the intention of the Governments that production from the Project will have full access to domestic and international markets subject to the Project Owners complying with all necessary legislative and regulatory requirements, including those under the National Energy Board Act and the Alberta Energy Resources Conservation Act. The Project will be allowed access to international market prices for production from the Project. The Project will be exempted from market related prorationing programs.

6. RECLAMATION COSTS

The Binding Agreements will provide for a fair allocation of reclamation costs and recognition thereof for the purposes of NPI and royalty calculations.

IV. UNDERTAKINGS BY THE GOVERNMENT OF ALBERTA

The royalty to be reserved to the Government of Alberta under the Agreed Portion of Lease 31 and that will be payable by each of the Project Owners as lessees under such lease will be prescribed in one of the Binding Agreements that will be entered into between the Government of Alberta and the Project Owners (the "Royalty Agreement"). The Royalty Agreement will be in the form mutually agreed between the Government of Alberta and the Project Owners, subject to the royalty terms and conditions set out below.

1. ROYALTY IN KIND

The royalty prescribed in the Royalty Agreement ("Alberta's Royalty Share") will comprise a share of the substances recovered pursuant to the Agreed Portion of Lease 31 or, in the case of such substances delivered to the integrated oil sands facility, a share of the products derived from those substances as a result of processing those substances in the facility (such substances and products called the "Leased Substances"). Alberta's Royalty Share will be delivered in kind to the Government of Alberta or will be disposed of by each Project Owner on behalf of the Government of Alberta in accordance with the Government of Alberta's direction.

2. ALBERTA'S ROYALTY SHARE

(1) Definitions

In this section the following definitions apply:

"Date of Project Payout" means the first date on which Cumulative Gross Revenue becomes equal to the sum of the Allowed Cumulative Project Costs and a Cumulative Return Allowance (being a 10% annual return on unrecovered costs).

"Cumulative Gross Revenue" in respect of any period means the aggregate of Gross Revenue for that period.

"Allowed Project Costs" means those necessary and reasonable net capital costs, excluding any OSLO Development Incentives and the Indexed Development Incentives received or receivable in respect of such costs, and net operating costs, identified in the Royalty Agreement, incurred on or after January 1, 1988 in respect of the Project, including

(a) a 1% allowance on such of the net capital costs, excluding OSLO Development Incentives and Indexed Development Incentives, as may be identified in the Royalty Agreement as being capital costs in respect of which such allowance may be claimed; and

(b) a 10% allowance on such net operating costs as may be identified in the Royalty Agreement as being operating costs in respect of which such allowance may be claimed.

"Allowed Cumulative Project Costs" means in respect of any period the aggregate of Allowed Project Costs for that period, total royalties paid under the Royalty Agreement during the period plus $24.8 million in respect of costs incurred prior to January 1, 1988.

"Net Revenue" means the excess of Gross Revenue for a Period over the Allowed Project Costs for that Period.

"Period" means each calendar year or portion thereof following the Date of Project Payout.

(2) <u>Alberta's Royalty Share</u>

(a) From the date of Production Start-up to the Date of Project Payout, Alberta's Royalty Share will, during

the periods specified in column 1, be the corresponding percentage specified in column 2, of the Leased Substances delivered from the Project during that period:

Column 1 (period from Production Start-up)	Column 2 (Royalty Rate)
1st 24 months	1%
2nd 24 months	2%
3rd 24 months	3%
4th 24 months	4%
97th and subsequent months	5%

(b) If the Date of Project Payout precedes the end of the 24th month after the Guaranteed Loans, Interest Assistance and TFF loans are fully repaid, Alberta's Royalty Share for each Period between the Date of Project Payout and the end of that 24th month will be that part of the Leased Substances delivered from the Project during the Period that is equal to the greater of 5% of such Leased Substances or 25% of Net Revenue for the Period.

(c) In respect of each Period after the end of the 24th month after the Guaranteed Loans, Interest Assistance and TFF loans are fully repaid, Alberta's Royalty Share will be that part of the Leased Substances delivered from the Project during the Period that is equal to the greater of 5% of such Leased Substances or 30% of Net Revenue for the Period.

(d) Notwithstanding subsections (a) - (c), the matter of processing within the Project of

(1) royalty paid purchased feedstock, and

(2) custom processed feedstock,

and any additional royalty that will be applicable in that regard where royalty is calculated other than on the basis of a percentage of Net Revenue, will be addressed in the Royalty Agreement.

3. DEFERRED ROYALTY BEFORE DATE OF PROJECT PAYOUT

(a) If, during any month before the Date of Project Payout, the Actual Price for the month falls within a range specified in column 1, the portion of Alberta's Royalty Share of Leased Substances that will be delivered or disposed of on its behalf will be the lesser of

(i) the corresponding percentage specified in column 2, or

(ii) the percentage applicable in respect of the period specified in column 1 of Section 2(a) that includes the month

of the Leased Substances delivered from the Project during that month.

Column 1 (Actual Price)	Column 2 (Percentage of Leased Substances)
Less than $18/bbl ($US)	1%
$18/bbl ($US) - $18.99/bbl ($US)	2%
$19/bbl ($US) - $19.99/bbl ($US)	4%

(b) If, during any month, a portion of Alberta's Royalty Share is paid under the preceding paragraph that is less than the Royalty Share prescribed under section (2)(a), the excess will comprise deferred royalty. Such deferred royalty will earn interest at the annual rate of 10% until paid in full, but will only be payable out of a percentage of Net Revenue in accordance with the following. Each Project Owner

will, during any Period where Alberta's Royalty Share of Leased Substances is calculated as a percentage of Net Revenue, deliver in kind to the Government of Alberta or dispose of on its behalf a further portion of Leased Substances delivered from the Project in the Period equal to 2% of the Net Revenue for the Period until the deferred royalty and interest is repaid.

V. UNDERTAKINGS BY PROJECT OWNERS

1. NET PROFITS INTEREST

Each Project Owner (other than AOSE and any Project Owner that elects not to take Guaranteed Loans) will provide at no cost to each Government a Net Profits Interest (NPI) in the Project to commence in the month immediately after the full repayment by the Project Owner of Guaranteed Loans in accordance with the Original Repayment Schedule, Interest Assistance and TFF loans. AOSE and any other Project Owner that elects not to take Guaranteed Loans, or in the event that a Project Owner refinances or repays Guaranteed Loans sooner than set out in the Original Repayment Schedule, that Project Owner will provide the same NPI in the month that the last of the other Project Owners' NPI first becomes payable. Should no Project Owner take Guaranteed Loans or should all Project Owners refinance or repay earlier than as set out in the Original Repayment Schedule, the time of commencement of the payment of the NPI will be determined in the Binding Agreements.

The rate of NPI, for each Government, will be 8% of each Project Owner's share of Net Operating Revenues from the Project exclusive of any expansion or major debottlenecking, to the extent that Net Operating Revenue is positive. The NPI will be estimated and paid on a monthly basis. A final calculation of the NPI will be done and adjustments made to payments for a calendar year within six months of the end of the year.

The amount of NPI payable for any month will be reduced in the same proportion that the average Actual Price for that month is below US$30/bbl. In particular the NPI payable to each Government expressed as a percentage of each Project Owner's share of Net Operating Revenue from the Project is:

$$8 \times \frac{\text{Actual Price}}{\text{U.S. \$30/bbl.}}$$

The NPI will terminate at the earlier of 35 years from Production Start-up or when 1 billion barrels of synthetic crude oil have been produced by the Project (excluding synthetic crude oil production from any expansion or major debottlenecking of the Project).

2. COMPLETION ASSURANCES

(a) Engineering Studies

The Project Owners will agree to complete the engineering studies set out in Schedule C in order that a decision on whether to proceed with the Project can be made no later than July 1, 1991. Failure of the Project Owners to complete such studies by July 1, 1991 will result in:

(i) any outstanding interest and principal on the Guaranteed Loans outstanding at the time becoming due and payable by each of the Project Owners (as corporate obligations) within 30 days after written notice from the Governments; and

(ii) each of the Project Owners (as corporate obligations) reimbursing the Governments for any Interest Assistance, OSLO Development Incentives and Indexed Development Incentives provided to that point, with interest.

(b) Project Appropriation

(i) If, at Project Appropriation the estimated Social (Unburdened) Return is less than 5% (expressed in real terms) based on the cost estimates at the time and the current price at the time projected with no real growth, or the estimated Eligible Capital Costs of the Project to Production Start-up (verified by independent

audit) exceed $4.5 billion, either Government or the Project Owners can decide not to participate further in the Project. In this event the Project Owners will not be required to repay Guaranteed Loans, OSLO Development Incentives, Indexed Development Incentives or Interest Assistance. The current price for the forecast will be based on the average posted price at Edmonton for Alberta light crude oil (40° API) over an appropriate preceding period; or

(ii) If, at Project Appropriation the estimated Social (Unburdened) Return is greater than or equal to 5% real, the estimated Eligible Capital Costs of the Project to Production Start-up do not exceed $4.5 billion (verified by independent audit), and the Project Owners do not appropriate or do not proceed to the construction phase within six months of the Project Appropriation:

(A) any outstanding interest and principal on the Guaranteed Loans outstanding at the time will become immediately due and payable by each Project Owner (as corporate obligations) within 30 days after written notice from the Governments; and

(B) each Project Owner (as corporate obligations) will reimburse the Governments for any Interest Assistance, OSLO Development Incentives and Indexed Development Incentives provided to that point, with interest.

(iii) At Project Appropriation the Project Owners, acting collectively, can decide to appropriate or not to appropriate.

If at Project Appropriation, projected Eligible Capital Costs to Production Start-up, verified by independent audit, are more than 25% below $4.1 billion, or if the design capacity of the Project is less than 70,000 barrels per day, or if the Energy Resources Conservation Board does not approve the Project or approves a maximum level of production less than 70,000 barrels per day, the Governments and Project Owners will no longer be bound by this Statement of Principles or the Binding Agreements and the parties will endeavor to renegotiate the terms of the Statement of Principles and Binding Agreements.

(c) Construction of the Project

If at Project Appropriation the Project Owners decide to proceed with the Project, they will provide to the Governments assurance that they will exercise their reasonable efforts to complete the Project. As evidence of their commitment, the Project Owners will undertake that (provided the estimated Eligible Capital Costs to Production Start-up, verified by independent audit do not exceed $4.5 billion) they will proceed with the Project and that at least an aggregate amount of $1.7 billion will be spent or committed to suppliers for goods and services in accordance with an agreed Project schedule and that at least $1 billion of that amount will be actually spent in accordance with the agreed Project schedule.

The failure of the Project Owners collectively to meet the above commitments would result in:

(i) any outstanding interest and principal on the Guaranteed Loans outstanding at the time becoming due and payable by each of the Project Owners within 30 days after written notice from the Governments, and

(ii) 7% of each Project Owner's interest in the Project being transferred in equal portions to the Governments.

Notwithstanding the foregoing, provided each Project Owner maintains all interest payments on the Guaranteed Loans in good standing and provided further that all Project Owners act in concert in not meeting their respective shares of the above commitments, the provisions of (i) and (ii) above will not become effective for a period of 12 months from the date of the failure to meet the above commitments. During the 12 month period the Project Owners will not be entitled to any further drawdowns on the Guaranteed Loans or to any other benefits under this Statement of Principles.

The failure of a Project Owner to meet its share of the above commitments would result in the remedies set out in Section III 2(c)(xii) being applicable and such Project Owner not being entitled to any further benefits pursuant to this Statement of Principles provided that if under Section III 2(c)(xii) other Project Owners or the Governments exercise their rights under such section the benefits pursuant to this Statement of Principles shall reapply.

(d) <u>After Project Appropriation</u>

If at any time after Project Appropriation the estimated Eligible Capital Costs to Production Start-up, verified by independent audit, exceed $4.5 billion then the Project Owners acting collectively may suspend construction. Under such circumstances the Project Owners will be relieved of all obligations under Section V.2(c) and will not be required to repay the OSLO Development Incentives, Indexed Development Incentives, and Interest Assistance should they not complete the Project. If each Project Owner maintains all interest payments on the Guaranteed Loans and if construction has not recommenced within 3 years of the date of suspension or July 1, 1999 whichever is the earlier (the "Suspension Period") then the Guaranteed Loans will be payable commencing on the first day following the Suspension Period, such payments to be amortized

over 10 years. During the Suspension Period and thereafter if construction has not recommenced the Project Owners will not be entitled to any further drawdowns on the Guaranteed Loans or to any other benefits under this Statement of Principles.

(e) Force Majeure

The Binding Agreements will contain force majeure provisions with respect to the dates referred to in the definitions of Full Production and Production Start-up.

3. ASSIGNMENT

(a) As long as a Project Owner's Guaranteed Loans or TFF Loans are outstanding or the Project Owner's eligibility for Guaranteed Loans or TFF Loans continues and has not been waived, a disposition (whether by way of assignment, pledge or otherwise) of all or any portion of that Project Owner's interest in the Project is not permitted without the approval of the Governments. Such approval will not be unreasonably withheld, and a decision will be given not more than 10 business days after the Governments have received adequate information to make their decision. If the Governments do not respond within the 10 day period approval shall be deemed to have been given. The decision of the Governments to give or withhold their approval will be based solely on the financial strength of the assignee. Subject to the provisions of Section III 2(c)(xii) the party making the disposition will cause the party receiving the disposition to assume all obligations attributable to the interest disposed of.

(b) As long as a Project Owner's Guaranteed Loans or TFF Loans are outstanding or the Project Owners eligibility for Guaranteed Loans or TFF Loans continues and has not

been waived, a disposition of all or any portion of that Project Owner's interest in any Project asset (other than immaterial assets) is not permitted without the approval of the Governments. Such approval will not be unreasonably withheld, and a decision will be given not more than 10 business days after the Governments have received adequate information to make their decision. If the Governments do not respond within the 10 day period approval shall be deemed to have been given. The decision of the Governments to give or withhold their approval will be based solely on the effect of the disposition on the operations of the Project or the security of the Governments.

(c) At any time when paragraph (a) is not applicable to a Project Owner any assignment of that Project Owner's interest will require an additional consent of the Government of Alberta under the Royalty Agreement.

(d) Assignment by a Project Owner to an affiliate corporation will not require the Government's approval, provided that the Project Owner making the assignment will remain liable for the assigning Project Owner's obligations, including any corporate obligations under Sections V.2, of this Statement of Principles. For the purposes of this section, an "affiliate" means a corporation which directly or indirectly owns all of the shares of the assigning Project Owner, a corporation all the shares of which are owned directly or indirectly by the assigning Project Owner or a corporation all the shares of which are owned directly or indirectly by a corporation which also owns directly or indirectly all of the shares of the assigning Project Owner.

4. OWNERSHIP AND MANAGEMENT AGREEMENT

The Ownership and Management Agreement will not include any provision nor will there be any addition or amendment thereto which could reasonably be expected to adversely affect the security of the Governments and it will be a condition to the Governments' entering into the Binding Agreements that they will be satisfied with the Ownership and Management Agreement in that regard.

The Project Owners shall keep the Governments reasonably informed (including the provision of drafts at reasonable intervals) as to those proposed terms of the Ownership and Management Agreement which could reasonably be expected to adversely affect the security of the Governments and provide to the Governments copies of the form of Ownership and Management Agreement proposed for execution sufficiently in advance of execution to allow the Governments a reasonable opportunity to examine the same. The Project Owners will, in good faith, consider any recommendations of the Governments in that regard.

5. UNDERTAKINGS BY PROJECT OWNERS ON THE ENVIRONMENT

(a) Project Owners will agree to address fully environmental and social impacts of the Project at an early stage in the Project planning process.

(b) Project Owners understand that the Project must conform to all the requirements of the Alberta Land Surface Conservation and Reclamation Act and the federal Environmental Assessment and Review Process. Pursuant to the Canada-Alberta Agreement concerning Environmental Impact Assessment of Projects in Alberta with Implications for Canada and Alberta, federal environmental concerns and interests will be dealt with through the Alberta environmental assessment and review process. Alberta will ensure that the relevant

interests and concerns of the Federal Government are included and addressed in the Environmental Impact Assessment Procedures. To this end the Project Owners will prepare an environmental impact assessment.

(c) Project Owners undertake to ensure that the Project meets provincial environmental regulatory requirements specified under the Alberta Water Resources Act, the Alberta Clean Air Act, the Alberta Clean Water Act, the Alberta Land Surface Conservation and Reclamation Act, and other relevant Alberta and federal legislation, guidelines and objectives. Alberta will agree to address federal environmental interests in provincial permits and licences.

(d) New environmental protection technologies are continuing to emerge, and periodically major improvements become commercially and economically viable. Project Owners will agree to incorporate, to the extent practical and reasonable, suitable reserve space in their facility design and plant layout to permit ready incorporation of new environmental protection technologies in the future.

6. UNDERTAKINGS BY PROJECT OWNERS ON INDUSTRIAL BENEFITS

(a) Project Owners undertake to satisfy the Governments that full and fair opportunity is being given to Albertans and other Canadians to provide goods and services to the Project.

(b) In order to meet this requirement, the Project Owners will develop and implement a detailed industrial benefits plan for the approval of the Governments. The plan will incorporate the following:

(i) The Project Owners estimate that there will be 80 percent Alberta and Canadian content of Project development expenditures to Production Start-up. Project Owners will use this as a target for the Project and will undertake their best efforts to achieve this target in a competitive environment.

(ii) The Project Owners estimate that Alberta and Canadian content for total engineering, services procurement and project management will be 80 - 90%. Project Owners will use this as a target for the Project and will undertake their best efforts towards achieving this target in a competitive environment.

(iii) The Governments will identify with the Project Owners certain strategic manufactured goods for which there will be target levels of Alberta and other Canadian content within a competitive environment.

(c) The Project Owners will provide information regarding performance with respect to the Industrial Benefits Plan to Governments on a regular and timely basis.

7. UNDERTAKINGS BY PROJECT OWNERS ON EMPLOYMENT AND TRAINING

Project Owners will seek to employ Alberta and other Canadian personnel to the maximum extent possible. To this end, they will:

(a) develop and implement a detailed human resource plan in consultation with Governments which will:

(i) provide Albertans and other Canadians full and

fair opportunity to access training opportunities associated with the Project;

(ii) seek to maximize the employment and training opportunities provided to local residents with special emphasis on training and upgrading of locally-sourced labour for the operations phase of the Project;

(iii) detail measures which will seek to ensure that groups designated by the Governments benefit from the opportunities associated with the Project;

(iv) undertake direct consultations on the labour market impact of the Project with trade unions, professional organizations, community and native councils and groups representing special interests;

(b) Governments will work closely with the Project Owners to achieve a prompt decision with respect to the Plan. Upon approval Project Owners will be provided access to the Governments' employment and training services and programs.

(c) The Project Owners will provide information regarding performance with respect to the Human Resources Plan to the Governments on a regular and timely basis.

8. UNDERTAKINGS BY PROJECT OWNERS ON TECHNOLOGY

Project Owners recognize the importance of technology to the Project, and to Governments. Accordingly, Project Owners will:

(a) consider as a factor the long term benefits to Alberta and Canada in their evaluation and choice of technologies associated with the Project;

(b) conduct research and development programmes that would contribute to enhanced resource extraction and upgrading, enhanced environmental protection, and reduced consumption of natural resources. In this way, Project Owners will seek to maximize the long-term benefits to Alberta and the rest of Canada from technology research and development.

Project Owners will provide information regarding the implementation of these matters to Governments on a regular and timely basis.

VI. SIGNATURES

Dated this 24th day of September, 1988.

HER MAJESTY THE QUEEN IN RIGHT OF CANADA

_____ _____

_____

HER MAJESTY THE QUEEN IN RIGHT OF ALBERTA

_____ _____

_____

Approved pursuant to the Alberta Federal and Inter-Governmental Affairs Act

CANADIAN OCCIDENTAL PETROLEUM LTD. ESSO RESOURCES CANADA LIMITED

_____ _____

HER MAJESTY THE QUEEN IN RIGHT OF THE PROVINCE OF ALBERTA, AS REPRESENTED BY THE MINISTER OF ENERGY, IN HER CAPACITY AS A PROJECT OWNER

GULF CANADA RESOURCES LIMITED

_____ _____

PETRO-CANADA INC.

PANCANADIAN PETROLEUM LIMITED

_____ _____

APPENDIX I

DEFINITIONS

"Actual Price" means for any period the average price of West Texas Intermediate crude oil (or such other crude oil price basis as the parties may agree in the Binding Agreements), in $US at Cushing in such period and converted to $1988 using an appropriate deflator to be defined in the Binding Agreements;

"AOSE" or "Alberta Oil Sands Equity", means Her Majesty the Queen in Right of the Province of Alberta, as represented by the Minister of Energy, in her capacity as one of the Project Owners or any assignee of Her Majesty;

"Eligible Capital Costs" means all Project-specific capital costs incurred after January 1, 1988 and prior to Production Start-up and in addition those Project-specific capital costs which are included in the original Project design and estimate of $4.1 billion which are incurred after Project Start-up and before Full Production to a maximum of $80 million, but excluding costs for which the Project Owners are reimbursed or otherwise compensated other than by the benefits of this Statement of Principles, overhead costs of the Project Owners other than overhead costs of the Project Operator which are charged to the capital programs of the Project and are payable by all Project Owners, interest costs whether on debt guaranteed by the Governments or on any other debt used to finance the Project, and guarantee fees;

"Full Production" means the earliest of:

- the date when daily oil production from the Project averages more than 90% of the proposed Project capacity of 77,000 bbl/day during 120 consecutive days,

- the date when cumulative oil production from the Project exceeds 46.5 million barrels, and

- July 1, 1999;

"Gross Revenues" includes:

(a) Proceeds of the sale or disposition of property, plant and equipment including intellectual property, acquired for or developed in the Project;

(b) The sum of the Project Product Revenues; and

(c) Any other net proceeds and recoveries relating to the Project not dealt with above other than the proceeds from the sale of all or any part of an interest in the Project.

"Project Product Revenue" is defined for each kind of product as:

the quantity of each kind of product produced by the Project X the Price of the Product

The "Price of the Product" will be determined on the basis of arm's length selling prices of products in a manner to be specified in the Binding Agreements.

"Guaranteed Loans" means the $1.2 billion of loans to be guaranteed by the Governments as referred to in Section III 2(a) plus any interest capitalized under Section III 3(a) but for greater certainty Guaranteed Loans does not include the TFF loans.

"Interest Assistance" means the Interest Assistance prior to Production Start-up other than the capitalized interest referred to in Section III 3(a) and the Indexed Interest Assistance referred to in Section III 3(b).

"Net Operating Revenue" means Gross Revenues minus Operating Costs and capital costs for repairs and maintenance (other than costs related to an expansion or major debottlenecking of the Project).

"Nominal Payout" for a Project Owner means the time when the aggregate of the Project Owner's (i) cumulative Gross Revenues from the Project, (ii) proceeds drawn down from Guaranteed Loans and TFF loans, and (iii) share of unrepaid balance of Interest Assistance, first equals the aggregate of the Project Owners's share of (A) cumulative Operating Costs, (B) cumulative capital costs (net of government development incentives and other contributions including those payable under this Statement of Principles), (C) repayment of principal on Guaranteed Loans and TFF loans, (D) cumulative royalties, and (E) cumulative Notional Project Income Tax, (F) cumulative gross interest costs on the Guaranteed Loans and TFF loans, and (G) cumulative guarantee fees on Guaranteed Loans and TFF loans.

"Notional Project Income Tax" for a Project Owner means the combined federal and provincial income tax (including surtaxes when applicable) which would be paid if that Project Owner claimed on a full flow-through basis all capital cost allowances, interest expenses and other relevant tax deductions, as well as any tax credits available, relating to the Project at the full rates allowed in the relevant income tax legislation.

"Operating Costs" will be defined in the Binding Agreements as a categorization of costs that are eligible as Operating Costs but will exclude amounts for which the Project Owners are reimbursed or otherwise compensated, interest and financing costs, overhead costs of the Project Owners other than overhead costs of the Project Operator which are charged to operating programs and are payable by all Project Owners, Notional Project Income Tax, actual income tax, royalties, net profits interests, carried interests and other similar interests.

"Production Start-up" means the earlier of the date by which cumulative oil production from the Project exceeds 5 million barrels or July 1, 1997.

"Project Appropriation" means the date which is the earlier of July 1, 1991 or the date on which the Project Owners make a decision pursuant to the Ownership and Management Agreement either to appropriate or not appropriate the funds necessary to proceed with detailed engineering and construction of the Project.

"Social (Unburdened) Return" means the rate of discount that equates the present value of cumulative expected net cashflows from the Project to zero; net cashflows for any period are gross revenues less capital and operating costs and are not adjusted by any government incentives, any debt financing, NPI, provincial royalties, and income taxes. The rate of return calculation will be based on a 28-year production life of the Project.

SCHEDULE A
REQUIRED TAX RULINGS

The entering into of the Binding Agreements is subject to the Project Owners obtaining favourable federal and provincial tax rulings based on an early application for a ruling by the Project Owners, of the income tax treatment that has been assumed as a basis for this Statement of Principles, including, without restricting the generality of the foregoing, confirmation that:

(a) The joint venture among the Project Owners will not, for income tax purposes, be considered a partnership;

(b) The Project will qualify as a new and separate mine distinct from the Syncrude mine;

(c) The "at risk rules" and any or all the restrictions in the Income Tax Act (the "Act") with respect to inducement or other assistance payments will not apply so as to require an amount to be included in income or restrict, deny or postpone the amount otherwise deductible by the Project Owner in respect of:

(i) investments made from Guaranteed Loans or the TFF loans;

(ii) interest costs, net of any Interest Assistance, incurred during the construction period and incurred during the post Production Start-up period;

(iii) repayments of Interest Assistance when paid;

(d) The Project Owners will be considered to have disposed of an NPI or any other Canadian Resource Property for nil proceeds of disposition in respect of any government NPI that will or may come into effect at some later date. Additionally, any payments by the

Project Owners to the Governments under any NPI will be deductible and not be deemed to be a non-deductible payment under paragraphs 12(1)(o) or 18(1)(m) of the Act;

(e) Where there is deferment of royalty payments, for the purposes of paragraph 12(1)(o) and 18(1)(m) of the Act, the amount deferred will not be considered to be payable until the year paid. Additionally, the provisions of paragraph 12(1)(x) will not apply to deem the deferral to be income at an earlier date.

SCHEDULE B

OTHER TERMS AND CONDITIONS ASSOCIATED WITH THE GUARANTEED DEBT OF THE PROJECT

1. Mix of debt to be appropriate to the financing structure with due regard to minimizing interest rate exposure.

2. Debt to be managed by each Project Owner individually, unless otherwise agreed.

3. Pricing consistent with rates on debt guaranteed by the Governments of Canada and Alberta, recognizing the nature of the guarantee structure and the ability to identify comparable government guaranteed debt for this purpose.

4. Project debt scheduled so as not to conflict with Canada or Alberta issues.

5. Selection of lenders based on competitive factors with a preference for Canadian lenders where consistent with good commercial practice

6. Timely review and approval, with approval of any borrowing not to be unreasonably withheld.

SCHEDULE C

ENGINEERING STUDIES

Schedule of Engineering Studies

Feasibility Study Update (Class V):

Complete major process selection activities and update engineering, cost estimates and economic analysis.

Completion mid-1989.

Design Basis Memorandum (Class III):

The completion of the Design Basis Memorandum which sets the basis for the forthcoming design specification and generally includes:

- results of studies of process alternatives to achieve an optimum process basis;
- documentation of technical data necessary for the basic design;
- offsite requirements including utilities, tankage, buildings and unloading facilities;
- design basis economics to be used in evaluating design alternatives; and
- raw materials and products specifications and specifications for utilities.

Also includes the associated Class III estimate and economic re-evaluation. Results of this stage would form the basis of project appropriation.

Completion mid-1991.